

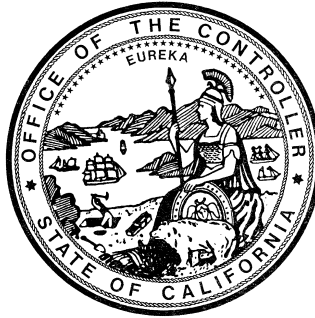
FRESNO UNIFIED SCHOOL DISTRICT

Audit Report

GRADUATION REQUIREMENTS PROGRAM

Chapter 498, Statutes of 1983

July 1, 1999, through June 30, 2002



STEVE WESTLY
California State Controller

October 2004



STEVE WESTLY
California State Controller

October 22, 2004

Santiago V. Wood, Ed.D., Superintendent
Fresno Unified School District
Education Center
2309 Tulare Street
Fresno, CA 93721

Dear Dr. Wood:

The State Controller's Office (SCO) audited the claims filed by the Fresno Unified School District for costs of the legislatively mandated Graduation Requirements Program (Chapter 498, Statutes of 1983) for the period of July 1, 1999, through June 30, 2002.

The district claimed \$1,809,941 for the mandated program. Our audit disclosed that none of the claimed costs is allowable because the district did not support that it incurred increased costs for staffing and supplying the new science courses mandated by legislation. The district was paid \$531,558. The total amount paid should be returned to the State.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at www.csm.ca.gov (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:ams

cc: Paul Disario

Associate Superintendent of Administrative Services
and Chief Financial Officer

Fresno Unified School District

Peter G. Mehas, Ed.D

County Superintendent of Schools

Fresno County Office of Education

Scott Hannan, Director

School Fiscal Services Division

California Department of Education

Arlene Matsuura, Educational Consultant

School Fiscal Services Division

California Department of Education

Jeannie Oropeza, Program Budget Manager

Education Systems Unit

Department of Finance

Charles Pillsbury

School Apportionment Specialist

Department of Finance

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Views of Responsible Officials	2
Restricted Use	2
Schedule 1—Summary of Program Costs	3
Findings and Recommendations	4
Other Issue	7
Attachment—District’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the claims filed by the Fresno Unified School District for costs of the legislatively mandated Graduation Requirements Program (Chapter 498, Statutes of 1983) for the period of July 1, 1999, through June 30, 2002. The last day of fieldwork was May 8, 2003.

The district claimed \$1,809,941 for the mandated program. The audit disclosed that none of the claimed costs is allowable because the district did not support that it incurred increased costs for staffing and supplying the new science courses mandated by legislation. The district was paid \$531,558¹. The total amount paid should be returned to the State.

Background

Education Code Section 51225.3 (added by Chapter 498, Statutes of 1983) requires that beginning with the 1986-87 school year, no pupil shall receive a high school diploma without completing an additional science course above that which was previously required. The legislation was effective in fiscal year (FY) 1983-84; however, a district had up to three years to implement this requirement. Prior to enactment of Chapter 498, Statutes of 1983, one science course was required. As a result of this enactment, two science courses, one each of biological and physical sciences, are now required.

On November 20, 1986, the Commission on State Mandates (COSM) determined that Chapter 498, Statutes of 1983, imposed a state mandate reimbursable under *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted the *Parameters and Guidelines* on March 23, 1988, and last amended it on January 24, 1991. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Graduation Requirements Program for the period of July 1, 1999, through June 30, 2002.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, not funded by another source, and not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the district's financial statements. Our scope was limited to planning and

¹ The draft report incorrectly stated that the district was paid \$450,869.

performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Fresno Unified School District claimed \$1,809,941 for costs of the legislatively mandated Graduation Requirements Program. Our audit disclosed that the entire claimed costs is unallowable.

For fiscal year (FY) 1999-2000, the district was paid \$407,113 by the State. Our audit disclosed that none of the costs is allowable; therefore, \$407,113, should be returned to the State.

For FY 2000-01, the district was paid \$124,445 by the State. Our audit disclosed that none of the costs is allowable; therefore, \$124,445, should be returned to the State.

For FY 2001-02, the district was paid \$0 by the State. Our audit disclosed that none of the costs is allowable.

Views of Responsible Officials

We issued a draft report on February 26, 2004. Santiago V. Wood, Ed.D, Superintendent, responded by the attached letter dated April 14, 2004, disagreeing with the audit results and stating that the district should get credit for unclaimed construction costs. The final audit report includes the district's response as the Attachment.

Restricted Use

This report is solely for the information and use of the Fresno Unified School District, the Fresno County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2002

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference ¹</u>
<u>July 1, 1999, through June 30, 2000</u>				
Salaries and benefits	\$ 1,462,622	\$ —	\$(1,462,622)	Finding 1
Materials and supplies	94,438	—	(94,438)	Finding 2
Total direct costs	1,557,060	—	(1,557,060)	
Indirect costs	82,680	—	(82,680)	Findings 1, 2
Total costs ²	<u>\$ 1,639,740</u>	—	<u>\$(1,639,740)</u>	
Less amount paid by the State		(407,113)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (407,113)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Salaries and benefits	\$ —	\$ —	\$ —	Finding 1
Materials and supplies	119,529	—	(119,529)	Finding 2
Total direct costs	119,529	—	(119,529)	
Indirect costs	5,916	—	(5,916)	Findings 1, 2
Total costs ²	<u>\$ 125,445</u>	—	<u>\$ (125,445)</u>	
Less amount paid by the State		(124,445)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (124,445)</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Salaries and benefits	\$ —	\$ —	\$ —	Finding 1
Materials and supplies	42,985	—	(42,985)	Finding 2
Total direct costs	42,985	—	(42,985)	
Indirect costs	1,771	—	(1,771)	Findings 1, 2
Total costs ²	<u>\$ 44,756</u>	—	<u>\$ (44,756)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>Summary: July 1, 1999, through June 30, 2002</u>				
Salaries and benefits	\$ 1,462,622	\$ —	\$(1,462,622)	
Materials and supplies	256,952	—	(256,952)	
Total direct costs	1,719,574	—	(1,719,574)	
Indirect costs	90,367	—	(90,367)	
Total costs ²	<u>\$ 1,809,941</u>	—	<u>\$(1,809,941)</u>	
Less amount paid by the State		(531,558)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (531,558)</u>		

¹ See the Findings and Recommendations section.

² Net of offsetting reimbursements and savings.

Findings and Recommendations

FINDING 1— Unallowable salaries, benefits, and related indirect costs

The district did not provide documentation substantiating the allowability of claimed salaries and benefits totaling \$1,462,622 for FY 1999-2000. The related indirect cost is \$77,665. The district did not claim salaries and benefits for FY 2000-01 and FY 2001-02.

Parameters and Guidelines requires that, beginning with the 1986-87 school year, no pupil is to receive a high school diploma without completing an additional science course above that which was required prior to enactment of Chapter 498, Statutes of 1983. The legislation was effective in FY 1983-84; however, a district had up to three years to implement this requirement. Previously, one science course was required. As a result of this mandate, two science courses, one each of biological and physical sciences, are now required. The costs incurred for providing the additional science course, net of savings a district experiences as a direct result (e.g., reductions in non-science courses resulting from the increase in required science courses), is subject to reimbursement under this mandate. Consequently, only the net increased costs of the additional biological or physical science courses taught are reimbursable.

Parameters and Guidelines states that reimbursable costs include the increased costs to the school district for staffing and supplying the new science courses mandated. Furthermore, the guidelines state that reimbursement for this mandate received from any source (e.g., federal, state, and block grants) is to be identified and deducted.

The district claimed FY 1999-2000 high school science teachers' salaries and benefits based on a formula that determined an incremental increase in teachers as a result of the mandate. The district calculated the increase in the number of science courses between the 1983-84 base year and FY 1999-2000, and reduced that amount by the percentage increase in high school enrollment for the same period. The district multiplied that number by FY 1999-2000 high school science courses and converted that number to full-time science teachers. The district then multiplied that number by the claim year's average annual salaries and benefits of a high school science teacher.

The calculation made by the district did not identify the courses taught in the base year for the one required high school science course or the courses taught in the claim years for the two required high school science courses. In addition, the calculation understated the district's enrollment growth factor. Consequently, the calculation did not measure the costs of teaching the additional high school biological or physical science courses in the claim years as a result of the mandate.

For FY 1999-2000, the district did not identify or report any offsetting savings of salaries and benefits due to reduction of teachers in non-science courses as a result of the mandate. Furthermore, the district did not support the lack of offsetting savings. Consequently, none of the claimed costs is reimbursable.

The claim filed in FY 1999-2000 was similar to claims that other districts filed in previous years which the SCO rejected because the districts had failed to reduce the claimed amount by offsetting savings (e.g., savings of salaries and benefits due to reduction of teachers in non-science courses). The districts filed Incorrect Reduction Claims (IRCs) with the Commission on State Mandates (COSM) arguing that the SCO incorrectly reduced costs of science teachers' salaries.

In response, we advised COSM that districts failed to report "Offsetting Savings and Other Reimbursement," as required by the *Parameters and Guidelines*. Furthermore, claimants did not provide reasons why offsetting savings could not be realized by laying off non-science teachers as authorized in *Education Code* Section 44955. We further advised COSM that districts voluntarily assumed the increased salary cost of a new teacher because the increased cost could have been avoided by exercising its statutory lay-off authority. The COSM denied the districts' Incorrect Reduction Claims.

Recommendation

We recommend that the district update its recording and reporting system to ensure that it only claims increased costs of salaries and benefits net of any offsetting savings and reimbursements the district experiences as a result of this mandate.

SCO's Comment

The district did not respond to this finding. The finding and recommendation remain unchanged.

Furthermore, the district did not support that the average pay rate of a science teacher exceeded the average pay rate of a non-science teacher during the audit period. The reimbursable salary cost consists of the positive differential cost (science teacher salary in excess of non-science teacher salary) multiplied by the number of courses taught to satisfy the second mandated science course requirement.

FINDING 2— Unallowable materials, supplies, and related indirect costs

The district did not provide documentation substantiating the allowability of claimed materials and supplies totaling \$256,952 for the audit period. The related indirect cost is \$12,702.

See Finding 1 for a summary of the *Parameters and Guidelines* requirements.

The district allocated materials and supplies similar to the methodology used to allocate teacher costs as discussed in Finding 1. The calculation did not include the cost of courses taught in the base year for the one required science course and the cost of courses taught in the claim years for the two required science courses. The calculation also understated the district's enrollment growth factor for FY 1999-2000 and FY 2000-01. Consequently, the calculation did not measure the costs of additional science courses taught as a result of the mandate.

In addition, the calculation made by the district included \$13,134 in costs for FY 2000-01 that was expended in the prior fiscal year and excluded costs from Edison High School of \$1,339 for FY 1999-2000 and \$3,328 for FY 2000-01.

For the audit period, the district did not identify or report any offsetting savings of materials and supplies due to reducing non-science courses as a result of the mandate. Furthermore, the district did not support the lack of offsetting savings.

Total claimed materials, supplies, and related indirect costs are unallowable as follows:

	Fiscal Year			Total
	1999-2000	2000-01	2001-02	
Materials and supplies	\$ (94,438)	\$(119,529)	\$ (42,985)	\$ (256,952)
Indirect costs	(5,015)	(5,916)	(1,771)	(12,702)
Total adjustment	<u>\$ (99,453)</u>	<u>\$(125,445)</u>	<u>\$ (44,756)</u>	<u>\$ (269,654)</u>

Recommendation

We recommend that the district update its recording and reporting system to ensure that it claims only increased costs of materials and supplies net of any offsetting savings and reimbursements the district experiences as a result of this mandate.

District's Response

We believe we have shown increased costs in supplies in science classes over the base year of 1983/84. In 1993/94 the district converted the accounting software and implemented account codes to identify science materials used in the classroom. The calculation for the mandated costs takes all science materials charged to that activity account code and then reduces that amount by the increase in enrollment over the base year. Therefore, the district is not claiming 100% of all science materials.

Fresno Unified implemented the Graduation Requirement by increasing the number of science classes offered at the high schools.

SCO's Comment

The finding and recommendation remain unchanged.

The district calculated the increased costs of science materials in excess of the base-year level rather than the increased costs relating to the second science course taught. The district did not identify any offsetting savings or support a lack thereof.

The district did not support that the average materials and supplies for a science course exceeded the average materials and supplies for a non-science course during the audit period. Reimbursable materials and supplies consist of the increased cost multiplied by the number of courses taught to satisfy the second mandated science course requirement.

**OTHER ISSUE—
Unclaimed
construction costs**

The district's response included comments regarding unclaimed construction costs claimed for FY 1999-2000. The district's response and SCO's comment are as follows:

District's Response

One area that cannot be disputed is the costs the District incurred related to the building of science labs during the years in question. Science labs were built using general funds for Duncan, Fresno, and McLane High schools. Initially, the field auditor agreed that these expenses should have been included in the mandate and could be used to offset any items that may be questioned. Later he declined to include this information since it had not been included in the original claim. However, the district did expend \$709,673 from the general fund to build science labs to give the additional classrooms the equipment they needed to conduct the Science classes. We believe these expenses should be included.

SCO's Comment

The district did not claim FY 1999-2000 construction costs; therefore, these costs were not subject to this audit. *Government Code* Section 17561(d)(3) limits the district's authority to seek reimbursements for FY 1999-2000 claim to January 15, 2002.

**Attachment—
District's Response to
Draft Audit Report**



FRESNO UNIFIED SCHOOL DISTRICT

Education Center 2309 Tulare Street
Fresno, California 93721-2287
☎ 559/457-3000

BOARD OF EDUCATION

Patricia R. Barr, President
David D. Wright, Clerk
Richard A. Johanson
Luisa Medina
Manuel G. Nuñez
Michael E. O'Hare
Tony Vang, Ed.D.

SUPERINTENDENT

Santiago V. Wood, Ed.D.

April 14, 2004

Mr. Jim L. Spano, Chief, Compliance Audits Bureau
State Controllers' Office-Division of Audits
300 Capitol Mall, Suite 518
Sacramento, CA 95814

Dear Mr. Spano:

This letter is in response to the draft audit regarding the mandated Graduation Requirements Program (Chapter 498, Statutes of 1983) for the period of July 1, 1999, through June 30, 2002 for Fresno Unified.

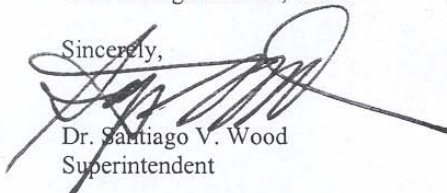
We respectfully disagree with the disallowance of \$450,869 for the Graduation Requirement Mandate. The entire claim has been denied by the State. The mandate requires a district to provide the additional science course in lieu of a non-science course.

We believe we have shown increased costs in supplies in science classes over the base year of 1983/84. In 1993/94 the district converted the accounting software and implemented account codes to identify science materials used in the classroom. The calculation for the mandated costs takes all science materials charged to that activity account code and then reduces that amount by the increase in enrollment over the base year. Therefore, the district is not claiming 100% of all science materials.

One area that cannot be disputed is the costs the District incurred related to the building of science labs during the years in question. Science labs were built using general funds for Duncan, Fresno, and McLane High schools. Initially, the field auditor agreed that these expenses should have been included in the mandate and could be used to offset any items that may be questioned. Later he declined to include this information since it had not been included in the original claim. However, the district did expend \$709,673 from the general fund to build science labs to give the additional classrooms the equipment they needed to conduct the Science classes. We believe these expenses should be included.

Fresno Unified implemented the Graduation Requirement by increasing the number of science classes offered at the high schools. To reduce the claim to zero shows that the district did not incur any costs to implement the mandate, when in fact we show a cost of \$1,160,542 (\$450,869 in supplies and indirect costs claimed and the additional \$709,673 from additional science labs built in 1999/00) from July 1, 1999 through June 30, 2002.

Sincerely,



Dr. Santiago V. Wood
Superintendent

c: Paul Disario, Associate Superintendent/CFO
Jacquie Canfield, Administrator, Fiscal Services
Diane Parrish, Assistant Superintendent
Mike Smith, Legal Counsel

Equal Opportunity Employer

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>